

Message Text

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ACTION NEA-09

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05

OMB-01 PM-03 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 PA-01 PRS-01 USIA-06 IO-10 AGR-05 /137 W

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R 230540Z APR 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2829

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KINSHASA

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USINT BAGHDAD

USMISSION OECD PARIS

USMISSION EC BRUSSELS

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E.O. 11652: GDS

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TAGS: ENRG, EFIN, KU

SUBJECT: KUWAITI COMMENT ON PARIS PREPCON AND OTHER OPEC ISSUES.

SUMMARY: DISCUSSIONS WITH KEY GOK OFFICIALS AND LOCAL PRESS REPORTS INDICATE GOK SOMEWHAT DISAPPOINTED AT FAILURE PARIS PREPCON BUT REMAINS HOPEFUL CONSUMER/PRODUCER DIALOGUE WILL NOT BE ALLOWED TO DIE. SENIOR MINISTRY OF OIL OFFICIAL STATES SOME OPEC COUNTRIES BELIEVE USG WANTED PRECON TO FAIL. HOWEVER, INFLUENTIAL MINISTER ELECTRICITY AND WATER BELIEVES C/P CONFERENCE CAN BE SALVAGED, PERHAPS BY REDUCING NUMBER OF COMMODITY PROBLEMS TO BE DISCUSSED. MINOIL OFFICIAL SAID OIL PAYMENTS WILL BE DISCUSSED AT JUNE OPEC MEETING IN GABON. HE SAID PAYMENTS WILL CONTINUE TO BE MADE IN DOLLARS, BUT OIL PRICES LIKELY TO BE DENOMINATED IN SDRS, OR ANOTHER BASKET OF CURRENCIES. GAS PRICE COORDINATION AMONG OPEC MEMBERS ALSO LIKELY TO BE DISCUSSED. END SUMMARY.

1. EMBOFF HAD OPPORTUNITY DISCUSS KUWAITI REACTION TO PARIS CONSUMER/PRODUCER PREPARATORY CONFERENCE WITH SHEIKH ALI KHALIFA AL-SABAH APRIL 21. ALI KHALIFA IS MOST IMPORTANT OIL POLICY AND OPEC AFFAIRS OFFICIAL IN MINISTRY OF OIL APART FROM MINISTER KAZEMI HIMSELF.

2. ALI KHALIFA BAGAN BY SAYING THAT VIEW IS WIDELY HELD AMONG OPEC/LDC'S THAT USG WANTED PREPCON TO FAIL. HE SAID THIS VIEW RESTS ON THE APPARENT ASSUMPTION BY USG THAT OIL PRICES WILL COME DOWN. HE SAID THAT IT IS WRONG TO EXPECT OPEC PRICES TO BE REDUCED BEFORE END OF DECADE. FUNDAMENTAL FACT, AS HE SEES IT, IS THAT OPEC STATES ARE BETTER ABLE TO ABSORB PRODUCTION CUTS THEREBY MAINTAINING PRICE OF OIL, THAN CONSUMING COUNTRIES ARE TO REDUCE CONSUMPTION TO A LEVEL WHICH WOULD INTERFERE WITH ECONOMIC GROWTH. HE SEES THIS SITUATION PREVAILING THROUGHOUT THE 1970'S. AT SAME TIME HE DOES NOT ANTICIPATE ANY BASIC INCREASE IN PRICE OF OPEC OIL, ALTHOUGH OPEC COUNTRIES WILL TAKE STEPS TO MAINTAIN CURRENT PURCHASING POWER. HE BELIEVES WORLD DEMAND FOR OPEC OIL DURING REMAINDER OF 1970S WILL SUPPORT PRESENT PRICES.

3. EMBOFF SAID THAT ALI KHALIFA WAS MISTAKEN IN THINKING THAT US WISHED TO SEE PREPCON FAIL. WE BELIEVE STRONGLY, HOWEVER, THAT INCLUSION WIDE RANGE OF RAW MATERIALS ISSUES
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AND OTHER ISSUES WAS UNACCEPTABLE. KHALIFA ARGUED THAT IT WAS NECESSARY TO LINK ENERGY AND RAW MATERIALS BECAUSE, WITHOUT THE STRENGTH OF THE OPEC COUNTRIES, THE LDC'S WERE NO MATCH AGAINST INDUSTRIALIZED STATES IN NEGOTIATIONS. HE SAID THAT DURING PAST TWENTY-FIVE YEARS NOTHING HAS BEEN ACCOMPLISHED FOR LDC'S ON COMMODITY PRICES IN THE UN OR IN OTHER FORA. THAT IS WHY OPEC AND LDC STATES FEEL SO STRONGLY THAT ENERGY ISSUES CANNOT BE DISCUSSED SEPARATELY FROM OTHER RAW MATERIAL ISSUES.

HE EXPRESSED DISAPPOINTMENT THAT NO COMPROMISE COULD BE FOUND, AND HINTED THAT IF THE PRINCIPLE OF DISCUSSING RAW MATERIALS ISSUES WERE ACCEPTED, OPEC STATES WOULD HAVE BEEN FOUND TO HAVE BEEN MODERATE ON SUBSTANTIVE ISSUES.

4. ALI KHALIFA SAID THAT ALTHOUGH GOK WAS DISAPPOINTED AT OUT-COME OF PARIS MEETING IT RECOGNIZED THAT THIS WAS NOT THE END OF THE WORLD. KUWAITIS HOPED THAT ANOTHER ATTEMPT WOULD BE MADE TO DISCUSS THE ISSUES WITH A VIEW TOWARD FINDING SOLUTIONS. ALTHOUGH GOK BELIEVE THAT A C/P CONFERENCE IS IMPORTANT, IT WILL NOT TAKE THE LEAD IN ARGUING THAT ONE BE HELD. HE ASKED WHAT USG ATTITUDE WAS, AND EMBOFF REPLIED THAT IT WAS SIMILAR TO THAT OF GOK. WE FEEL FOR TIME BEING, MARKET FORCES WILL HAVE TO BE ALLOWED TO WORK.

5. IN SEPARATE CONVERSATION WITH AMBASSADOR AND DCM, GOK'S INFLUENTIAL MINISTER OF ELECTRICITY AND WATER VOICED SIMILAR BUT SOMEWHAT MORE OPTIMISTIC VIEWS. HE FEELS FACT PREPCON HELD AT ALL WAS MAJOR STEP FORWARD, AND APPEARS SANGUINE THAT FURTHER PROGRESS CAN BE MADE, PERHAPS BY REDUCING THE NUMBER OF COMMODITIES TO BE CONSIDERED BY PRODUCER/CONSUMER CONFERENCE. ACCORDING THIS SOURCE, PRODUCERS FULLY RECOGNIZE NEED AND ARE PREPARED TO COOPERATE IN RESOLVING ENERGY PROBLEM AND IN DEVELOPING ALTERNATIVE ENERGY SOURCES. NEVERTHELESS, HE ALSO MADE CLEAR GOK WOULD CONTINUE TO INSIST ANY CONFERENCE ON ENERGY ADDRESS AT LEAST SOME OTHER MAJOR COMMODITY PROBLEMS, ARGUING PRICE ADJUSTMENTS ARE REQUIRED IF WORLD TRADE IS TO BE MAINTAINED AT OPTIMUM LEVELS.

6. ACCORDING TO ALI KHALIFA THERE WILL NOT BE AN OPEC MEETING IN VIENNA TO DISCUSS PREPCON FAILURE. (WE HAVE CONFLICTING REPORTS THIS SUBJECT). HE SAID NEXT OPEC MINISTERIAL MEETING WILL BE IN LIBREVILLE IN EARLY JUNE AND THAT ONE OF THE

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SUBJECTS ON THE AGENDA WILL BE ON THE QUESTION OF WHETHER OPEC PAYMENTS SHOULD BE DENOMINATED IN DOLLARS. HE SAID THAT THERE IS NO QUESTION THAT DOLLARS WILL CONTINUE TO BE USED TO MAKE PAYMENTS. AT ISSUE IS WHETHER TO COMPUTE PRICES IN TERMS OF SDR'S OR SOME OTHER BASKET OF CURRENCIES. PROBLEM WITH SDR'S, HE SAID, WAS THAT THEY WERE TOO HEAVILY WEIGHTED IN DOLLARS. TO PROTECT TO USE OPEC'S OWN GENEVA FORMULA OR SOMETHING SIMILAR.

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7. THERE ALSO MAY BE SOME DISCUSSION OF COORDINATING GAS PRICES.

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HE SAID IRAN AND ALGERIA WERE ESPECIALLY INTERESTED IN

LNG PRICES WHILE KUWAIT, SAUDI ARABIA, QATAR AND, AGAIN, IRAN ARE INTERESTED IN LPG PRICES. ALI KHALIFA, WHO RECENTLY WAS IN TEHRAN, ADMITTED THAT SOME COORDINATION ON GAS PRICING ALREADY EXISTS. HE NOTED THAT KUWAIT HAS RECENTLY REDUCED ITS LPG PRICE BY \$1-2 PER TON.

8. COMMENT: ALI KHALIFA'S REMARKS REINFORCE OTHER REPORTS THAT OPEC/LDC SOLIDARITY NOT TO BE TAKEN LIGHTLY. IF HIS ANALYSIS THAT LDC'S NEED OPEC TO MAKE HEADWAY IN NEGOTIATIONS WITH INDUSTRIAL STATES IS CORRECT, IT EXPLAINS, IN PART, WHY LDC'S ARE SURPRISINGLY WILLING TO GO ALONG WITH OPEC PRICE INCREASES WITHOUT COMPLAINT. ALI KHALIFA'S TONE HAS BEEN REFLECTED IN REMARKS BY MINISTER OF OIL KAZEMI REPORTED IN PRESS AND IN PRIVATE CONVERSATION BETWEEN AMBASSADOR AND MINISTER OF ELECTRICITY AND WATER. IN ANSWER TO EMBOFF'S QUESTION, ALI KHALIFA SAID GOK WISHES MAINTAIN INFORMAL DIALOGUE ON CURRENT ENERGY AND RELATED ISSUES WITH USG OFFICIALS. HE EVEN ADDED THAT THERE MAY BE BENEFIT IN GOK OFFICIALS OCCASIONALLY DISCUSSING THESE ISSUES IN WASHINGTON, AND EMBOFF SAID THAT WOULD BE MOST WELCOME.
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